

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Periodic Reporting  
(Proposal Six)

Docket No. RM2017-10

PUBLIC REPRESENTATIVE COMMENTS

(September 15, 2017)

I. INTRODUCTION

The Public Representative hereby provides comments in response to Commission Order No. 4023.<sup>1</sup> In that Order, the Commission established Docket No. RM2017-10 to receive comments from interested persons, including the undersigned Public Representative, that address the Postal Service's petition to change analytical principles related to periodic reporting.<sup>2</sup> The Postal Service filed the Petition pursuant to 39 C.F.R. § 3050.11. Petition at 1. In support of the Petition, the Postal Service filed data and models in a non-public library reference USPS-RM2017-10/NP1.<sup>3</sup> The Postal Service filed additional information in its Responses to Chairman Information Request No. 1 and No. 2.<sup>4</sup> With these responses, the Postal Service also filled the updated data

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<sup>1</sup> Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Six), August 1, 2017 (Order No. 4023).

<sup>2</sup> Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Six), July 28, 2017 (Petition).

<sup>3</sup> Library Reference USPS-RM2017-10/NP1, August 1, 2017.

<sup>4</sup> Responses of the United States Postal Service to Questions 1-13 of Chairman's Information Request No. 1, August 30, 2017 (Responses to CHIR No. 1); Responses of the United States Postal Service to Questions 1-12 of Chairman's Information Request No. 2, September 13, 2017 (Responses to CHIR No. 2). See *also* Chairman's Information Request No. 1, August 23, 2017; Public Representative Motion for Issuance of Information Request, August 18, 2017; Chairman's Information Request No. 2, September 7, 2017; Public Representative Second Motion for Issuance of Information Request, September 6, 2017.

and models in two additional non-public library references USPS-RM2017-10/NP2 and USPS-RM2017-10/NP3.<sup>5</sup>

## II. PROPOSAL SIX: SUMMARY

*Objective:* In Proposal Six, the Postal Service seeks to revise “the mail processing and transportation cost models for Parcel Select / Parcel Return Service mail” filed in Docket ACR 2016.<sup>6</sup> Petition, Proposal Six at 1.

*Background:* In January 2016, the Postal Service discontinued and removed a few Parcel Select (PS)/Parcel Return Service (PRS) price categories “from the Price List”.<sup>7</sup> The Postal Service claims that it has detected “some minor errors” made during the process of modifying the cost models in response to the above referenced removal. Petition, Proposal Six at 1. Beyond correcting the errors, Proposal Six provides additional modifications to the PS/PRS mail processing and transportation cost models aiming to ensure they reflect the “current processing methods” and incorporate the new data in the analysis. *Id.*

*Impact:* Proposal Six primarily affects mail processing unit cost estimates and cost per cubic foot estimates derived from Mail Processing Cost and Transportation Cost models. *Id.* at 14-19. For multiple price categories of PS/PRS products, the percentage change in unit cost estimates varies significantly: from just below 1 percent to over 200 percent. *Id.* at 18-19. Additionally, in the PRS Transportation Cost Model, Proposal Six adds Full Network and RDU cost per cubic foot estimates. *Id.* at 16-17,

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<sup>5</sup> Library Reference USPS-RM2017-10/NP2, August 30, 2017; Library Reference USPS-RM2017-10/NP3, September 13, 2017.

<sup>6</sup> See Docket No. ACR 2016, Library References: USPS-FY16-NP15 (Mail Processing Cost Model) and USPS-FY16-NP16 (Transportation Cost Model).

<sup>7</sup> These removed categories include the originating network distribution center (ONDC) and network distribution center (NDC) price categories for presort Parcel Select (PS), and also the network distribution center (RNDC) price category for Parcel Return Service (PRS). *Id.* See also Docket No. CP2016-9, Order Approving Changes in Rates of General Applicability for Competitive Products, November 13, 2015 at 4 (Order No. 2814); Notice of the United States Postal Service of Changes in Rates of General Applicability for Competitive Products Established in Governors’ Decision No. 15-1, October 16, 2015 at 3.

19. In the PS/PRS Transportation Cost Model, the Postal Service also incorporates a decrease in cost per cubic foot estimates associated with Commission Order No. 3973.<sup>8</sup> Petition, Proposal Six at 15, 19.

### III. COMMENTS

Proposal Six seeks modifications to two Parcel Select/Parcel Return Mail Service models: Mail Processing Cost Model and Transportation Cost Model.

#### A. Mail Processing Cost Model.

For the Mail Processing Cost Model, Proposal Six provides modifications primarily associated with the removal of certain price categories from the price list, correction of errors, and modification of PS/PRS volume categories in multiple worksheets of the model.<sup>9</sup>

Due to consolidation of Parcel Select Lightweight machinable and irregular parcels into one price category, Parcel Select Lightweight, the Postal Service combines the associated costs in the worksheet 'Summary.'<sup>10</sup> Petition, Proposal Six at 2. The Public Representative suggests that in future filings, the Postal Service should also combine the associated costs in the worksheet 'Volumes.'<sup>11</sup>

In the 'PS Data' worksheet, for Ground and DNDC parcels, the Postal Service updates the percentages for machinable parcels that end up being processed manually.

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<sup>8</sup> See Docket No. RM2016-12, Order on Analytical Principles Used in Periodic Reporting (Proposal Four), June 22, 2017 (Order No. 3973); Library Reference PRC-LR-RM2016-12/NP1, June 22, 2017.

<sup>9</sup> USPS-RM2017-10/NP1, file "PROP.SIX.USPS-FY16-NP15." See also USPS-RM2017-10/NP2, file 'Prop.6.ChIR.1.NP15' and USPS-RM2017-10/NP3, file 'Prop.6.ChIR.2.NP15.'

<sup>10</sup> Such a consolidation became effective January 2016. See Order No. 2814 at 4. Parcel Select Lightweight (PSLW) "is a ground delivery service designed for parcels that are used for order fulfillment" and weighing less than 16 ounces. See United States Postal Service Customer Use Guide. Parcel Select Lightweight, January 2016, Version 1.0 at 4-6, available at: [https://ribbs.usps.gov/shipproductsservices/documents/tech\\_guides/PSLWUser.pdf](https://ribbs.usps.gov/shipproductsservices/documents/tech_guides/PSLWUser.pdf)

<sup>11</sup> See USPS-RM2017-10/NP3, file "PROP.6.ChIR.2.NP15", worksheet 'Volumes,' cells A22:G38.

Responses to CHIR No. 1, question 2. Under Proposal Six, such percentages are calculated by weight category using volume data for parcels weighing 35 pounds or less (while under current methodology, the estimated percentages are based on data for parcels weighing up to 70 pounds). *Id.* As the Postal Service argues, a modification allows for a “more accurate estimate” because parcels weighing over 35 pounds “are likely to be nonmachinable.”<sup>12</sup> Considering the Postal Service’s arguments, the Public Representative generally agrees that the proposed modification is reasonable from an operational standpoint.

The Postal Service also proposes certain modifications to mail volume categories in the ‘Volumes’ worksheet.

First, for Parcel Select, the Postal Service incorporates ONDC and NDC volumes into the Ground volume category to ensure that “the total Parcel Select volume contained in the ‘Volumes’ worksheet would match that shown in the CRA.”<sup>13</sup> In the mail processing cost model originally filed with the Petition, the Postal Service did not incorporate ONDC and NDC volumes into Ground volume in the worksheet ‘PS Data,’ explaining that Ground volumes presented in this worksheet and the ‘Volumes’ worksheet come from different data sources (and therefore did not match). Responses to CHIR No. 1, question 4. However, in later filed library references USPS-RM2017-10/NP2 and USPS-RM2017-10/NP3, in the ‘PS Data’ worksheet, the Postal Service provides recalculated total volumes (using data from ‘PS Ground Vol’ worksheet in the mail processing cost model) so that the total volume in ‘Volumes’ and ‘PS Data’ worksheets now match.<sup>14</sup> The Public Representative believes that the performed correction is important for consistency.

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<sup>12</sup> *Id.* Originally in the Petition, the Postal Service stated that the provided percentages “were [previously] calculated incorrectly”, and “[t]his error [had] been corrected. Petition, Proposal Six at 2.

<sup>13</sup> Responses to CHIR No. 1, question 3. Considering that the ONDC and NDC presort Parcel Select mail pieces are discontinued, their inclusion into the total Ground Volume will not be applicable for FY 2017. *Id.*; Petition, Proposal Six at 1.

<sup>14</sup> Compare USPS-RM2017-10/NP3, file ‘Prop.6.ChIR.2.NP15, worksheets ‘Volumes’, cell B16 and worksheet ‘PS Data’, cell B30. See also Responses to CHIR No. 1, question 4.

Second, the Postal Service disaggregates the Parcel Select Ground volume data into machinable, non-machinable outside (NMO), and oversize volumes using the percentages provided in the 'PS Data' worksheet (while in the current mail processing model all PS Ground volume is considered "machinable").<sup>15</sup> The Public Representative concludes that a provision for more disaggregated volumes should improve the accuracy of the provided data.<sup>16</sup> An addition of two worksheets – 'GROUND NMO' and 'GROUND OVER' into the Mail Processing Cost Model also appears reasonable.

Third, for Parcel Return Service, the Postal Service presents the Full Network price category that replaces the RNDC category.<sup>17</sup> The Postal Service explains that "the Full Network PRS volume was previously grouped with the RNDC volume" that does not exist anymore. Petition, Proposal Six at 2. The Public Representative observes that for PRS, the total RNDC mail volume in the current Mail Processing Cost model equals the total Full Network mail volume presented in the proposed model.<sup>18</sup> The Public Representative suggests that the Postal Service provide a clarification regarding the interaction between RNDC and Full Network price categories and the corresponding PRS mail volumes. This would improve transparency.

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<sup>15</sup> Petition, Proposal Six at 2. *See also* USPS-RM2017-10/NP3, file "PROP.6.ChIR.2.NP15," worksheet 'Volumes', cells C16:E16 and B6:B8.

<sup>16</sup> It is not, however, clear why the Postal Service has not previously performed such a disaggregation (considering that in the current mail processing cost model, the mail type percentages for Parcel Select are also available). *See* Mail Processing Cost Model, worksheet 'Volumes,' cells C16:E16 and B6:B8. The Public Representative suggests the Postal Service provide a clarification whether the current treatment of all Parcel Select Ground mail as machinables is due to a calculation error or any other reason.

<sup>17</sup> *Compare* USPS-RM2017-10/NP3, file "PROP.6.ChIR.2.NP15," worksheet 'Volumes,' cells A43:G43 *with* Mail Processing Cost Model, worksheet 'Volumes,' cells A45:G45.

<sup>18</sup> *Compare* USPS-RM2017-10/NP3, file "PROP.6.ChIR.2.NP15," worksheet 'Volumes,' cell G43 *with* Mail Processing Cost Model, worksheet 'Volumes,' cell G45. At the same time, in these two models, the distribution of PRS mail volumes between machinable and oversize parcels slightly varies. *Compare* USPS-RM2017-10/NP3, file "PROP.6.ChIR.2.NP15," worksheet 'Volumes,' cells C43 and E43 *with* Mail Processing Cost Model, worksheet 'Volumes,' cells C45 and E45.

For the Parcel Select Full Network, the Postal Service develops the mail flow models using a similar methodology that it applied for the Parcel Select Ground, although with certain exceptions and specific assumptions. See Petition, Proposal Six at 2, 4-5; Responses to CHIR No. 2, questions 9-10. The Parcel Return Service Full Network volumes are disaggregated into three categories (machinable, NMO and oversize parcel volumes) using the Parcel Select volume data. Petition, Proposal Six at 2. Assuming that no such data exists for PRS Full Network mail pieces, the Public Representative agrees that such approximation is reasonable. See Responses to CHIR No. 2, question 10.

Other proposed changes to the Mail Processing Cost Model mostly involve updates resulting from either up-to-date information or new operational realities. Petition, Proposal Six at 3-5. They appear rational. However, considering the substantial amount of changes made to the Mail Processing Cost Model, as well as the number of discrepancies and errors that have been found since the original Proposal Six filing, the Public Representative strongly encourages the Commission to request the Postal Service to perform additional “checking” and cleaning of the model to ensure that it is free of any additional errors.<sup>19</sup>

#### B. Transportation Cost Model.

For the Transportation Cost Model, Proposal Six includes modifications associated with the removal of certain price categories from the price list, as well as some major methodological changes.<sup>20</sup> In addition, a modified model incorporates changes resulting from the updated highway transportation variabilities as they were approved in Commission Order No. 3973. *Id.*

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<sup>19</sup> In library references USPS-RM2017-10/NP2 and USPS-RM2017-10/NP3, the Postal Service attempted to correct errors and discrepancies it identified while responding to Chairman Information Requests No. 1 and No. 2 regarding the proposed updates to the Mail Processing Cost model. See Responses to CHIR No. 1, question 1-2 and 4; Responses to CHIR No. 2, questions 1, 6-7.

<sup>20</sup> Petition, Proposal Six at 5-14; USPS-RM2017-10/NP1, file “PROP.SIX.USPS-FY16-NP16.” See also USPS-RM2017-10/NP2, file “Prop.6.ChIR.1.NP16” and USPS-RM2017-10/NP3, file “Prop.6.ChIR.2.NP16.”

One of the most significant modifications proposed for the Transportation Cost Model is a revised methodology for calculating the percentages of mail pieces travelling a long distance versus a local or an intermediate distance. Petition, Proposal Six at 6-7; Responses to CHIR No. 1, questions 10-11; Responses to CHIR No. 2, Question 11. Under the current methodology, the differentiation between long-distance and non-long-distance Parcel Select mail pieces is applicable to InterNDC parcels only.<sup>21</sup> The current methodology determines a percentage of the costs generated by InterNDC mail pieces “as long-distance based on the number of stop-days at NDC facilities versus non-NDC facilities.” Responses to CHIR No. No. 1, question 11. The percentage of InterNDC long-distance/intermediate PS/PRS mail pieces has been considered to be 45 percent since Docket No. R2000-1, when it was originally estimated.<sup>22</sup>

In Proposal Six, the Postal Service moves forward with a completely different methodology. The identification of parcel mail pieces as traveling long-distance or non-long-distance is primarily determined by having them loaded and unloaded in the same NDC service area or in different areas. Petition, Proposal Six at 6; Responses to CHIR No. 1, questions 10-11. To be able to identify mail pieces as either long-distance or non-long-distance, the Postal Service performs two types of mapping. First, the NDC facilities are mapped to the 3-digit ZIP Codes they service. Responses to CHIR No. 1, question 10. Second, for each mail piece, its origin and destination facilities are mapped to the relevant NDC facilities (based on 3-digit ZIP Codes of these facilities). *Id.* If, for any mail piece, the NDC service area of the originating facility is the same as

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<sup>21</sup> For IntraSCF transportation contracts, distance that mail pieces travel (and related costs) are considered local, while for InterSCF and IntraNDC contracts, travelled distance and costs are considered intermediate. See Petition, Proposal Six at 6; Responses to CHIR No. No. 1, question 11. See also Transportation Cost Model, worksheet ‘Trans Inputs – PS,’ cells F20:H23 and ‘Trans Inputs – PRS,’ cells F20:H23.

<sup>22</sup> Petition, Proposal Six at 6; Transportation Cost Model, worksheet ‘Trans Inputs – PS,’ cell J23 and ‘Trans Inputs – PRS,’ cell J23. See also Docket No. R2001-1, Response of United States Postal Service Witness Jennifer L. Eggleston to Interrogatories of Parcel Shippers Association (PSA/USPS-R25-1-3), question 1, November 8, 2001, available at <https://www.prc.gov/prcarchive/viewpdf.aspx?docid=508278170>

the NDC service area of the destinating facility, the Postal Service identifies this mail piece as travelling an intermediate distance, otherwise, long distance. Petition, Proposal Six at 6-7; Responses to CHIR No. 1, question 10-11. Such a methodology applies not only to InterNDC contract types, but also to IntraNDC, InterSCF and IntraSCF contracts. Petition, Proposal Six at 6-7, 10-11; Responses to CHIR No. 1, question 11. Instead of using the same percentage every year (as before), the Postal Service now intends to recalculate the percentage by each contract type annually. Responses to CHIR No. 2, question 11.

The Public Representative believes that by utilizing advanced spatial software and mapping tools the Postal Service is on the right track. Also, to ensure that long-distance percentages adequately reflect operational realities, they need to be recalculated on a regular basis. Considering the Postal Service's ongoing operational changes, the Postal Service's intention to recalculate these percentages annually appears to be a right decision. However, the Public Representative has major concerns about other aspects of the proposed methodology for calculating long distance percentages.

First of all, this methodology is very rough: it does not consider measuring any actual distances between facilities, and ties the conclusion about long-distance or non-long-distance travel to the 3-digit ZIPs served by NDC facilities. Responses to CHIR No. 2, question 11; Responses to CHIR No. 1, questions 10-11; Petition, Proposal Six at 6-7. However, it is important to consider that areas of different 3-digit ZIP Codes are very different: they are larger in rural areas, and relatively small in urban areas.<sup>23</sup>

The proposed methodology might be especially problematic for contract types other than InterNDC, where origin and/or destination facilities may be non-NDC facilities. Thus, by definition, InterSCF contracts "primarily involve carrying mail between

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<sup>23</sup> For more information about the United States Postal Service's 3-digit ZIP system, including U.S. ZIP Code areas see e.g., <https://www.arcgis.com/home/item.html?id=2690036a601b4e9a937466884a594938>

SCFs or P&DCs.”<sup>24</sup> The following example illustrates that application of the proposed methodology might easily lead to inaccurate, and even anecdotal conclusions. If, for a Parcel Select mail piece, origin and destination facilities are separated by boundaries of a 3-digit ZIP Code system (even though these facilities are located one mile or even less from each other), the travel distance of this mail piece will still be considered long distance. The above described hypothetical example becomes real for IntraSCF contract type where the average number of miles travelled by both local and long distance Parcel Select mail pieces is equal to one mile. Responses to CHIR No. 1, question 11.

The one mile average distance for both local and long-distance travel for Parcel Select mail pieces raises a concern that in its transportation cost model, the Postal Service does not clearly define long-distance, intermediate and local travel. Is a long-distance travel characterized by any particular number of miles that the mail piece travels or is there a different unit of measurement? The Postal Service states: the current methodology that classifies a percentage of costs as long-distance, “does not take into account that stops at non-NDC facilities may be long-distance.” Responses to CHIR No. 1, question 11. Considering the above quoted statement, it is possible to conclude that the Postal Service uses travel time as an indicator of whether a mail piece travels a long-distance or local/intermediate distance.<sup>25</sup> To avoid confusion and to better understand how long-distance versus non-long-distance is defined, the Public Representative strongly suggests that the Postal Service provide a clarification.

For InterSCF and IntraNDC contract types, the proposed methodology results in transfer of a significant portion of Parcel Select costs from the intermediate into long-

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<sup>24</sup> Docket No. ACR 2016, Library Reference USPS-FY16-36, file “USPS\_FY16\_36\_TRACS.pdf” - Transportation Cost System (TRACS) Documentation at 5.

<sup>25</sup> At the same time, the Postal Service defines local transportation “as any transportation within a SCF service territory.” Responses to CHIR No. 1, question 8. Considering the provided definition, it is not clear how a portion of Parcel Select mail pieces previously being in the local distance category were reclassified into long-distance category (as it was done for IntraSCF Parcel Select pieces under Proposal Six). Responses to CHIR No. 1, Question 11.

distance category without any reasonable justification. Considering that the Postal Service calculates its long distance percentages using data from TRACS, which is a statistical database subject to a sampling error, the accuracy of the estimated percentages becomes even more questionable. The Public Representative cannot conclude that the proposed modification would improve the quality, accuracy, or completeness of the data as required by 39 C.F.R. § 3050.11.

Another proposed modification to the Transportation Cost Model is related to a newly introduced classification of transportation legs for destined parcels into ‘expected’ and ‘unexpected.’<sup>26</sup> Petition, Proposal Six at 7-9; Responses to CHIR No. 1, question 13; Responses to CHIR No. 2, questions 4-5, 12. The Postal Service claims that in the absence of such a classification it is unable “to calculate the true transportation costs incurred by destination entry pieces.” Responses to CHIR No. 1, question 13.

The Postal Service explains that unexpected transportation legs occur “due to mail pieces being forwarded, returned, or mis-sent.” Responses to CHIR No. 2, question 12. The Public Representative agrees that the above identified operational circumstances actually exist and are worth being considered under Proposal Six. However, percentages of unexpected transportation legs, and especially “unexpected cost percent” appear to be too high considering that these operational circumstances should be relatively rare.<sup>27</sup> Also, it is important to note that the Postal Service calculates the percentages of ‘unexpected’ legs (and related costs) using long distance percentages estimated following a newly proposed methodology described above.<sup>28</sup> However, here we see a sort of “chain reaction”: if long distance percentages are

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<sup>26</sup> This new classification applies to DDU, DSF and DNDC price categories for Parcel Select product, as well as to RDU and RSCF price categories for Parcel Return Service. See Petition, Proposal Six at 7-9.

<sup>27</sup> See USPS-RM2017-10/NP3, file “Prop.6.CHIR.2.NP16,” worksheet ‘Other Inputs,’ cells ‘A32:D41 and A47:D51.

<sup>28</sup> See USPS-RM2017-10/NP1, file “PROP.SIX.DATA”, worksheet ‘Calculation of PS Percentage,’ cells A70:D72 and worksheet ‘Calculation of PRS Percentage,’ cells A65:A71.

estimated incorrectly (in other words, they are higher than they should be), the number of ‘unexpected’ transportation legs and relevant percentages of ‘unexpected costs’ will be also inaccurate.<sup>29</sup>

The Public Representative suggests that prior to a potential adoption of proposed modifications to the Transportation Cost Model, the Commission requests the Postal Service provide additional clarification of the above discussed issues and make corrections where appropriate.

#### IV. CONCLUSION

The Public Representative respectfully submits the foregoing Comments for the Commission’s consideration.

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<sup>29</sup> Also, it does not seem clear why in calculation of percentages of ‘unexpected transportation legs,’ (as well as percentages of the relevant costs), the Postal Service uses TRACS data for five contract types including VSD. See *Id.* This concern arises because under Proposal Six, for both PS and PRS mail, there are four contract types: IntraSCF, InterSCF, IntraNDC and InterNDC. See *e.g.* Petition, Proposal Six at 6-7.